To: NZX Limited

Auckland, Wednesday 28 September 2022

The Warehouse Group FY22 annual result announcement

Second highest Group sales ever of $3.3B as Kiwis seek out affordable products in another challenging year

Highlights

- Group sales of $3.3 billion, down 3.5% on prior year, up 3.8% on FY20
- FY22 gross profit margin decreased compared to FY21, but improved during the year with FY22 H2 gross profit margin of 36.1% up 140 basis points from FY22 H1 gross profit margin of 34.7%
- Reported Net Profit After Tax of $89.3 million – down 18.3% on prior year
- Adjusted Net Profit After Tax of $85.5 million – down 48.9% on prior year
- Both reported and adjusted NPAT reflect $11.4 million (after tax) reduction due to accounting treatment of cloud computing software arrangements
- Group online sales up 39.8% and making up 15.3% of total Group sales, and within this, click and collect up 54.9% and making up 49.0% of total Group online sales[1]
- Strong growth in MarketClub, our new Group membership programme, acquiring nearly 600,000 active members in first 10 months
- MarketMedia announced as new unified retail media platform, with retail media revenue growing +23% on prior year to $20.9M
- Final dividend of 10.0 cents per share declared, resulting in full year dividends of 20.0 cents per share.

The Warehouse Group Limited (“the Group”) today announced the full year result for the year ended 31 July 2022. Despite Auckland stores being closed for 23% of the reporting period, the Group delivered sales of $3.3 billion, down 3.5% on FY21 but up 3.8% on FY20 and up 7.3% on FY19. Reported NPAT was $89.3 million, down 18.3% on FY21. Online sales increased 39.8% to $503.3 million and were 15.3% of total Group sales.

In the 12-month reporting period, the Group’s Auckland stores were closed for a total of 84 days due to COVID-19 Level 4 and Level 3 lockdowns and stores throughout the rest of New Zealand were closed for at least 21 days as the country moved in and out of lockdowns creating a very disrupted trading period. The second half of the year saw the country enter into the traffic light system and the Group operated at “Red” level for a further 74 days.

The Warehouse Group CEO Nick Grayston said the result was pleasing despite the first half of the year being one of the most disrupted periods since the start of the COVID-19 pandemic.

"While 2022 has been another year disrupted by COVID-19 lockdowns, we are pleased with this solid performance across the Group and our momentum overall as we continue to build a world class retail ecosystem. I would like to acknowledge all of our team members, who once again adapted quickly to the changing and challenging times so we could be there for our customers.

"The first half was the most challenging with a sales decline of 4.3% year on year. The second half saw disruptions starting to ease, supply chains and networks becoming easier to navigate and our customers return to stores, albeit with continued restrictions of "Orange" under the traffic light system.

"In the current environment every dollar counts and customers are seeking out brands like ours that continually have best in market prices, whether it be for butter, TVs, toys or blankets. The strength of our integrated retail ecosystem of brands, products and services has served us well.

"Our customers are seeking to engage with us both digitally and physically. Our same day click and collect service at The Warehouse and 1 hour click and collect service at Noel Leeming continue to grow with an increase at The Warehouse of 60.5% and at Noel Leeming of 50.3%. Across all brands, click and collect sales increased 54.9% compared to the prior year, making up nearly half of all Group online sales[1].

"We were also pleased with the momentum we've seen in our Group membership programme, MarketClub, which has grown to nearly 600,000 members in the 10 months between its launch in October 2021 and the end of FY22."

Group performance

FY22 gross profit margin improved over the course of the year to 35.3% for the full year, with FY22 H2 gross profit margin of 36.1% up 140 basis points from FY22 H1 gross profit margin of 34.7%, and only marginally down from the 36.4% realised in FY21. In the first half, gross margin was impacted by higher cost of ocean freight and increased cost of online fulfilment – which was intensified by the significant increase in online shopping this year. The Warehouse gross profit margin was most affected by these factors, with most of this impact occurring in the first half.

The Group's Adjusted Net Profit After Tax (NPAT) was $85.5 million – a decrease from $167.2 million in FY21. This includes a reduction of $11.4 million after tax to comply with the recent introduction of an accounting policy interpretation from IFRS in the way costs associated with cloud computing arrangements are treated ("SaaS" adjustment), with FY21 also impacted by $8.3 million after tax. Given the significant investment the Group is currently undertaking in core systems and customer facing digital solutions, the effect on reported earnings is material although there is no incremental cash impact.

[1] Percentage of omnichannel brands (The Warehouse, Warehouse Stationery, Noel Leeming and Torpedo7).

On a comparable basis to the prior year, excluding the SaaS adjustment, Adjusted NPAT is $96.9 million, our second highest result since 2007. This follows an extremely strong performance last year and demonstrates the gathering momentum of the transformation.

Cost of Doing Business (CODB), including the SaaS adjustment mentioned above, increased by $35.2 million compared to the equivalent expenditure last year. Additional costs include increased advertising in digital media and on TheMarket.com; COVID-19 related non-labour costs in our Distribution Centres and stores, and increased IT expenses on projects such as MDM, ERPFI and core infrastructure services.

Key brand performance

All Group brands were impacted by the COVID-19 restrictions and resulting decreased foot traffic of 12.1% compared to the prior year. Although online sales performed exceptionally well during the year, this did not offset the loss of in-store sales.

The Warehouse sales decreased 4.3% to $1.7 billion but finished the year with strong momentum – down 0.7% in the second half and with sales growth 0.4% in Q4. Online sales increased 60.5% in the year and represented 10.5% of The Warehouse sales, driven by click and collect, where sales grew 86.8% and made up 45.9% of The Warehouse online sales. Gross profit margin in The Warehouse decreased 180 basis points to 40.3% but improved in the second half from 40.0% in H1 to 40.7% in H2.

Warehouse Stationery sales decreased 9.1% to $249.7 million. Online sales increased 20.8%, and represented 13.7% of Warehouse Stationery sales, with click and collect fulfilment increasing 37.8%. Gross profit margin decreased 80 basis points to 47.5%. Over the year a further 10 stores were integrated into The Warehouse stores taking total Warehouse Stationery SWAS stores to 35.

Noel Leeming sales decreased 2.8% to $1.1 billion, but it remains the second highest sales result in the brand's history after a very strong FY21. Gross profit margin held up relatively well, decreasing by 10 basis points to 23.2%. Noel Leeming's 1-hour click and collect has been very well received by our customers with online sales increasing 50.3% to make up 16.3% of sales, and click and collect fulfilment increasing 40.4% making up 57.7% of Noel Leeming online sales.

Torpedo7 opened three new stores in the year, and an increased online presence contributed to increased sales of 8.1% to $171.5 million. Gross profit margin was impacted by increased online sales and product mix, decreasing 190 basis points to 36.0%. Online sales increased 31.0% to make up 35.3% of Torpedo7 sales, with click and collect increasing 41.9% to make up 46.2% of online sales.

TheMarket.com is our online marketplace and is quickly becoming one of New Zealand's favourite places to shop online with more than 390,000 active customers. Offering customers 4.2 million products from more than 6,500 local and international brands, TheMarket.com continued its growth trajectory in FY22 with average customer spend up 14% and delivered $110 million Gross Merchandise Value.

Retail Media growth & MarketMedia

Retail media revenue grew +23% on prior year to $20.9 million, and we are pleased to announce the launch of our unified retail media network, MarketMedia, to drive further growth.

The launch of MarketMedia will allow advertisers to reach and connect to New Zealand's largest integrated retail audience directly, with performance and reporting based on real-time behaviours across our online stores, apps, and millions of weekly visits to our stores.

"MarketMedia will enhance the value creation from our retail ecosystem further and we are excited about the future growth opportunities that this new retail media network will bring to the Group. We will be working with Omnicom as our first retail media agency partner to accelerate our work in this space."

Affordable groceries

"Grocery has been a focus for us throughout FY22, and we are pleased to be able to provide Kiwi families with lower priced alternatives for their essential items at a time of increased financial stress.

"We are encouraged by customer feedback over the last six months on our strong value-led range. Despite food price increases, we have held our prices on key essentials like butter, milk and bread as we committed to in March 2022 and our customers have benefited from this. Over the last five months, we estimate we've saved Kiwis families $2.7million by focusing on making a good breakfast of bread, butter, milk, Weet-bix and coffee affordable.

"Our customers rely on us to give them great value every time they shop with us. We do this in general merchandise and apparel, and we'll do it in grocery too as it's what our customers want.

"Grocery, pantry, health & beauty, laundry and pet care are all growing categories for us and are now available in all of our existing 89 The Warehouse stores. Looking ahead, we will continue to expand our value range and offer grocery essentials at NZ's best prices.

"We continue to be hopeful that the Government's ongoing actions to make grocery retailing a more level playing field, and access to equitable prices, will enable us to do more. Equal access to supply and distribution continues to be a challenge that is not yet solved."

Helping New Zealanders to live sustainability

"We are taking ambitious action to make sustainable living easy and affordable for everyone. We've already made good progress and we're stepping up to do more. This is a commitment we make acknowledging we don't have all the answers and that there is technology not yet available that we need.

"Climate change is an urgent global challenge and something we need to act on at pace. To this end, we've set the target to achieve 100% of our private label products and packaging to be sustainable or have a circularity solution by 2035, with the aim of increasing our sustainable living and circularity solutions for our customers, and to reach zero operational emissions (Scope 1 & 2) by 2040.

"We range over 35,600 private label products with at least one sustainable feature across the Group, accounting for $213 million in sales over FY22. We've diverted 73.4% of operational waste from landfill and have helped our customers divert a total of 653 tonnes of post-consumer waste from landfill disposal, including soft plastics, e-waste, ink and toners, whiteware, office furniture and heaters."

Cash and liquidity

Net cash flow decreased $201.7 million over the year resulting in a net debt position of $41.2 million at year end. With bank facilities of $420 million, we are within our liquidity target range of $350 million to $450 million. Inventory levels are $105 million higher than last year, partially driven by supply chain disruptions and to ensure that we have sufficient inventory leading into our peak trading period. We expect some cash flow benefits over the course of the FY23 financial year as we manage inventory to lower levels.

Outlook

"Looking ahead, we are cautious as we approach Q2 and our busiest time of the year. Cost of living conditions continue to be challenging, and we expect to see New Zealanders continue to seek out great value products across our brands.

"Given the ongoing inconsistency of container freight arrivals into New Zealand, we have taken action to ensure we have good levels of summer stock available across all our brands for peak selling.

"While August is the quietest trading month of the year, we have made a positive start and traded ahead of our expectations. Looking ahead and as in previous years, any earnings outlook for FY23 will be dependent on the critical second quarter peak trading period."

Dividend announced

Chair Joan Withers confirmed that the Board has declared a final dividend for the FY22 year of 10.0 cents per share, in line with the Group's policy to distribute at least 70% of adjusted net profit after tax. Given the impact of the SaaS adjustment on net profit this year, the dividend pay-out ratio is 81.1% in FY22 (71.6% excluding the SaaS adjustment). The final dividend will be fully imputed and paid on 2 December 2022 to shareholders on the register on 17 November 2022.

This brings the total dividends for the year to 20.0 cents per share.

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More information about The Warehouse Group's result, financial performance by brand, strategy and operations can be found in the 2022 Annual Report, available at www.thewarehousegroup.co.nz.

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